



Clerk of the Board
California Air Resources Board
1001 I Street, Sacramento, California 95814

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IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S MARKET DATA SHARING PROPOSAL

On behalf of the International Emissions Trading Association (IETA), I appreciate this opportunity to provide comments in response to the California Air Resources Board's (ARB) 25 January 2013 workshop to discuss Public Information Sharing from the cap-and-trade program. At this workshop ARB outlined a number of proposals and requests for stakeholder input related to market data sharing policies that deserve consideration and discussion. We thank you for considering IETA's perspectives on the matter.

ABOUT IETA

IETA is dedicated to the establishment of market-based trading systems for greenhouse gas emissions that are demonstrably fair, open, efficient, accountable, and consistent across national boundaries. IETA has been the leading voice of the business community on the subject of emissions trading since 2000. Our 150 member companies include some of North America's, and the world's, largest industrial and financial corporations—including global leaders in oil & gas, mining, power, cement, aluminum, chemical, pulp & paper, and investment banking. IETA also represents a broad range of global leaders from the industries of: data verification and certification; brokering and trading; offset project development; legal and advisory services.

IETA'S GENERAL POSITION ON MARKET DATA SHARING

IETA appreciates the efforts that ARB is putting into determining its market data sharing policy, including stakeholder consultations related to these issues in September 2012 and January 2013. IETA disapproves of any form of market abuse, and we strongly believe that regulators and market monitors should have access to all relevant market information necessary in order to fulfill regulatory and/or supervisory obligations. Market transparency is integral to achieving the type of strong oversight required to prevent fraudulent and anti-trust behaviour, while building public confidence in the program.

IETA supports market data being publicly disclosed, but only to the extent possible without revealing confidential business information and compliance strategies. A careful balance must be struck to avoid disproportionate or ill-conceived public disclosure requirements that negatively impact liquidity in what is a young and growing market. In general, IETA recommends that market data be **disclosed in aggregate** form as opposed to disclosure by individual entity.

IETA's specific data sharing considerations are outlined in the following table, then explored in further detail below.



	TOPIC	IETA POSITION
A	Compliance Obligation Data Disclosure	<ul style="list-style-type: none"> Support ARB's proposal to annually disclose compliance obligations for each CITSS entity on ARB website.
B	Compliance Account Balance Disclosure	<ul style="list-style-type: none"> Publish compliance account balances in aggregate. Publish compliance account balances annually after compliance deadlines. Compliance account balances should not be disclosed before compliance deadlines.
C	Holding Account & LUHA Balance Disclosure	<ul style="list-style-type: none"> Holding account and limited use holding account balances should not be disclosed publicly.
D	Compliance Instrument Transfer Data Disclosure	<ul style="list-style-type: none"> Publishing individual transfer data may be sensitive – aggregate data may suffice. If individual transactions are disclosed, ensure that individual transacting parties remain anonymous. Exchanges, price reporting agencies, and brokers are likely better suited than ARB to publish information on compliance instrument transfers.
E	Offset Project Data & Offset Invalidation Data Disclosure	<ul style="list-style-type: none"> Support ARB's proposal to publish issued offset quantity by project and vintage, updated monthly on ARB website. Support ARB's proposal to disclose quantity and vintage of invalidated offsets by project, to be updated monthly on ARB website.
F	Simultaneous Market Data Release	<ul style="list-style-type: none"> Ensure that market data reaches entities simultaneously. Recommend ARB notify stakeholders via listserv in advance of information releases.
G	Coordinate Market Data Release with Quebec	<ul style="list-style-type: none"> Ensure that market data is disclosed in conjunction with Quebec market data in the event that the two programs link.
H	Market Monitor Report	<ul style="list-style-type: none"> Quarterly and annual market monitor reports would be useful to build market confidence and prevent market manipulation.

A) COMPLIANCE OBLIGATION DATA DISCLOSURE

IETA supports ARB's proposal to annually disclose compliance obligations for each CITSS entity on ARB's website. Along with verified emissions data, this is some of the most important data to share publicly, helping to determine natural levels of supply and demand for compliance instruments.

B) COMPLIANCE ACCOUNT BALANCE DISCLOSURE

ARB's cap and trade regulation states that information on the quantity and serial numbers of compliance instruments contained in compliance accounts be disclosed in a timely manner.¹ At the 25 January 2013 public workshop, ARB officials appeared to suggest, therefore, that *individual* compliance account balances should be made public. IETA would like to point out, however, that **nowhere in the regulation does it specify that individual compliance account balances be released. Instead, the regulation would be satisfied so long as ARB releases compliance account information aggregated from all entities' compliance accounts across the program.**

¹ See California cap-and-trade regulation §95921(e)(4)



Disclosing compliance account information in aggregate would allow the market to be aware of the sum of compliance units circulating amongst compliance accounts – and combined with compliance instrument retirement reports published by ARB, this should provide enough information for the public to track compliance activities of regulated parties. For comparison, neither the European Union Emissions Trading Scheme (EU ETS) nor the Regional Greenhouse Gas Initiative (RGGI) publish individual account balances publicly.

The concern with publishing individual compliance account balances is that confidential business information (including information on compliance strategies) can be derived from compliance account balances. Although holding account balances and derivative contracts for future delivery may remain unknown, the public disclosure of a compliance account balance still raises problems.

Take, for example, the case of a large final emitter (LFE). The LFE has a compliance obligation in excess of the holding limit, and thus keeps as many compliance units in its compliance account as possible to remain under the holding limit in the lead up to compliance. This LFE has less flexibility than a smaller compliance entity, which can move units more freely between its holding account (which remains confidential) and its compliance account while staying under the holding limit either way. If an LFE's compliance account balance is disclosed, and a counter-party can add that amount to the LFE's holding limit, it is possible to estimate an LFE's position (the compliance account balance + the holding limit). Granted, under this scenario, that LFE may have confidential contracts for future delivery, but the information able to be garnered about an LFE by the greater market puts that LFE at a relative disadvantage compared to entities that do not possess a compliance obligation larger than the holding limit. For this reason, individual compliance account balances should not be made public.

At the 25 January 2013 workshop ARB requested stakeholder input regarding how often compliance account balances should be published. ARB initially proposed publishing compliance account balances monthly (and then eventually weekly). However, due to similar issues raised in the paragraph above, **IETA recommends that aggregate compliance account balance information be published at most once per year, following compliance deadlines.**

Entities with smaller compliance obligations, not affected by the holding limit, will have little incentive to hold compliance instruments in their compliance accounts until the compliance deadlines. Therefore, the information revealed in compliance account disclosure (despite the disclosure being in aggregate) will reveal information about LFEs who have no choice but to hold allowances in their compliance accounts due to the holding limit. The more frequent the disclosure of this information, the more frequently information will be revealed about those LFEs. Due to this issue, compliance account balances should be published annually, following compliance deadlines, so that information is not revealed about LFE positions in the lead up to compliance deadlines.

IETA supports the disclosure and monitoring of account balances whenever required by ARB and the market monitor in order to provide effective market oversight. However, public disclosure carries additional concerns as illustrated above and must be dealt with accordingly.



C) HOLDING ACCOUNT AND LIMITED USE HOLDING ACCOUNT BALANCE DISCLOSURE

ARB has also asked stakeholders for input on whether **general holding account** and **limited use holding account (LUHA)** balances should be made public in addition to compliance accounts. **IETA strongly recommends against disclosing holding and limited use holding account balances.**

The idea to disclose these account balances takes shape from the Emissions Market Assessment Committee (EMAC) paper and presentation from September 2012, where EMAC recommends ARB make publicly available in real-time the number of allowances, by vintage, held in each entity account. EMAC does not believe that such disclosure would reveal entities' positions because despite the fact that allowances in a compliance and holding account could be added up to reveal an entities' physical position, that entity could engage in a number of derivative contracts for future delivery, which would remain confidential. EMAC's paper states that "because of the availability of these confidential forward market transactions, no market participant would be revealing its net position in the emissions allowances market..."²

EMAC's argument does not take into account Electricity Distribution Utilities (EDUs), which cannot participate in the derivatives market due to California Public Utility Commission (CPUC) regulations. Without the ability to enter into these confidential forward market transactions, an EDU's position would be revealed if all account balances were disclosed. For this reason, ARB must not publicly disclose general holding account and LUHA balances.

D) COMPLIANCE INSTRUMENT TRANSFER DATA DISCLOSURE

IETA supports appropriate disclosure of compliance instrument transfer data to regulators and the market monitor to ensure that they possess the relevant information necessary for them to perform appropriate market oversight. However, IETA believes **that public disclosure of trade data by individual market participants should be avoided, as it could expose individual trading patterns if anonymity is not preserved.**

If ARB intends to report on individual transactions, individual entity names or identifying features should not be disclosed. This approach is currently employed by RGGI, where transaction type, transfer dates, transfer price, and unit amount are disclosed, but entity identity information is not revealed. In the EU ETS, transfer data is publicly disclosed, including entity name, but no price is disclosed – and importantly, this information is embargoed until five years after the transaction has been made.

Instead of publishing compliance instrument transfer data itself – where ARB may not be aware of all the terms of a transaction and thus risk distorting market signals – ARB could potentially rely on data-sharing from exchanges, price reporting agencies, and brokers that already currently supply this type of information in multiple commodity markets. Anonymous, delayed data (published reasonably close to 'real time') about the occurrence and volume of all transactions executed in an electronic trading system (e.g. on exchanges) would provide reliable price information on liquid

² EMAC's Issue Analysis: Public Information Sharing in California's Greenhouse Gas Emissions Cap-and-trade Market, 20 September 2012, P. 2, available [here](#).



standardized (and therefore relevant) contracts while preserving liquidity. It would also help all parties gain a better understanding of market evolution and key trends.

Transactional and hedging information is at the core of many companies' risk management strategies. Physical OTC carbon hedges are often large, strategic and by nature tailor-made. Publication of detailed non-aggregated information on trades concluded may pose serious confidentiality questions and thus should be carefully evaluated.

E) OFFSET PROJECT DATA & OFFSET INVALIDATION DATA DISCLOSURE

IETA supports ARB's proposals to publish issued offset quantity by project and vintage, updated monthly on ARB's website. IETA also supports the disclosure of quantity and vintage of invalidated offsets by project, to be updated monthly on ARB's website.

F) SIMULTANEOUS MARKET DATA RELEASE

As ARB officials are aware, it is very important that market sensitive information be released simultaneously to all market participants. Important market information is frequently posted on ARB's website without any notification sent to parties via listserv. Often, parties must visit ARB's website on an ad-hoc basis in the hopes of finding new information. IETA commends ARB's more recent attempt to notify market participants of the second November auction results report by circulating a notice via listserv that the report would become available at a specific time on a specific day. However, ARB then went on to post the report nearly two hours before the time it had originally stated. A similar scenario took place regarding the posting of 2011 emissions data. If ARB posts a scheduled time for information release, that information should be released at the stated time and not before.

G) COORDINATE MARKET DATA RELEASE WITH QUEBEC

When considering a market link to Quebec where allowances are fungible across jurisdictional lines, ARB must ensure that both Quebec and California's market data sharing policies are coordinated, so as not to give an advantage to entities from one jurisdiction over the other.

H) MARKET MONITOR REPORT

At the 25 January public workshop, ARB staff asked for stakeholder input on frequency and content of the program's market monitor report. IETA believes that a regular market monitoring report provided by an independent third party is integral to building and maintaining confidence in the program, both from the public and participants. A regular report will also serve to dissuade (or catch) any potential market manipulation.

IETA encourages ARB to draw from the [market monitoring reports](#) produced for the RGGI market, which include quarterly secondary market & auction reports, as well as an annual market report. While the monitor collects and analyzes market data both on an individual level and in aggregate, only aggregate information is released publicly in order to protect confidential business information.



CONCLUDING REMARKS

Once again, we thank ARB staff for their ongoing efforts in building California's carbon market. IETA appreciates this opportunity to provide comments on the important issue of market data disclosure, and hopes that ARB finds IETA's recommendations and perspective valuable.

If you have any questions, or further clarification is required, please do not hesitate to contact Robin Fraser (fraser@ieta.org) or Katie Sullivan (sullivan@ieta.org).

Sincerely,

A handwritten signature in black ink that reads "Dirk Forrister". The signature is written in a cursive, flowing style.

Dirk Forrister
President and CEO